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A REVIEW OF MULTI-BILATERAL TRUST-FUND ARRANGEMENTS

Report of the Executive Director

1. This report has been prepared in response to decision 97/26, in which the Executive Board recommended that the Executive Director undertake a review of multi-bilateral trust-fund arrangements and report thereon to the Executive Board at its third regular session in 1998 (para. 9).

2. To cover the main elements of UNFPA's multi-bilateral funding and cost-recovery approach as concisely as possible, this report is organized into five parts: Part I provides a brief introduction to the origins of, and rationale for, multi-bilateral funding; part II gives a historical overview, showing current trends and information on major multi-bilateral donors; part III furnishes a brief explanation of how multi-bilateral funding is carried out in UNFPA and some lessons learned; part IV discusses managerial and support services carried out by UNFPA units; and part V provides information on the cost-recovery process, specifically the cost-recovery mechanisms for regular programmable and multi-bilateral (co-financing) arrangements. Part V concludes with the Executive Director's recommendations for undertaking full cost recovery for (a) the managerial and support services (MS) costs for handling multi-bilateral (co-financing) activities, and (b) the administrative and operational support (AOS) costs for UNFPA execution of multi-bilateral projects.

I. INTRODUCTION

3. In January 1976, the Governing Council approved UNFPA's multi-bilateral funding proposal as contained in document DP/161. The report outlined the guiding principles and financial arrangements of multi-bilateral funding; the funding modality to be used, i.e., trust-fund arrangements; and the procedures for undertaking multi-bilateral funding. In its decision 76/2, dated 21 January 1976, the Council authorized UNFPA to apply a service charge for UNFPA or executing agency costs. In decision 93/29, the Governing Council approved new financial regulations authorizing UNFPA to use cost-sharing arrangements, as well as trust funds to undertake multi-bilateral funding.

4. Multi-bilateral contributions are received from donor and programme recipient countries, financial institutions, non-governmental organizations (NGOs), and foundations and are used for specific population activities that cannot be accommodated from UNFPA's general resources. However, from the beginning, the Fund has viewed multi-bilateral funding as a small, albeit important, supplement to its general resources. Such funding was to be used only as an alternate funding modality. This policy has been consistently maintained over the years as UNFPA's prime resource mobilization objective has been, and continues to be, to increase contributions to general resources. This policy was recently reiterated in sections I, V and VI of UNFPA's funding strategy document, DP/FPA/1998/CRP.2, which was submitted to the Executive Board at its second regular session, 1998.

5. The guiding principles for multi-bilateral funding have essentially remained the same as when they were first set forth in document DP/161 in 1976. It therefore may be useful to recapitulate them:

(a) Multi-bilateral projects are to be undertaken only with the consent of the recipient country;

(b) Multi-bilateral funding is to be carried out for the purpose of financing those priority needs identified in the country/regional/interregional programmes for which general resources are found to be insufficient. Thus, multi-bilateral activities are to form an integral component of UNFPA's regular programme support approved by the Board. However, in accordance with the Fund's Financial Regulations and Rules, the multi-bilateral portion will not start until such funds are received;

(c) Multi-bilateral projects should be compatible with UNFPA's general policies and with the Fund's aims and purposes, as approved by the General Assembly and the Economic and Social Council; these may include projects that have health, social welfare or other broader development objectives but are linked to population activities. UNFPA might fund only the part directly related to population, and the rest of the programme may be submitted for other bilateral or multilateral funding;

(d) Multi-bilateral funding should be designed to enlarge the volume of population assistance to countries;

(e) The volume of funds available for pledging to the general resources of UNFPA should not be adversely affected as a result of multi-bilateral support;

(f) Multi-bilateral projects are to be assessed under UNFPA's normal project approval procedures. Additionally, UNFPA is responsible for monitoring and evaluating multi-bilateral projects and reporting on them in accordance with standard monitoring and evaluation procedures and UNFPA's financial rules and regulations;

(g) The management and coordination of multi-bilateral projects is considered more complex than other projects funded by UNFPA, and therefore careful attention must be given to the management aspect of such projects.

6. Over the last two decades, the above guiding principles have worked very well and have helped UNFPA achieve the following major objectives: (a) bring additional funding to population activities; (b) keep multi-bilateral funds as a supplement to the Fund's general resources; and (c) ensure that multi-bilateral funding is not used at the expense of support for general resources.

II. HISTORICAL OVERVIEW AND TRENDS

7. Multi-bilateral funding started very modestly in 1976 with a contribution of approximately $500,000 from Sweden for a family planning project in Mexico. From 1976 to the mid-1980s, contributions to multi-bilateral projects ranged between $1 million and $3 million per year. However, in 1986, mainly as a result of the growing imbalance between increasing requests from developing countries for population assistance and the lack of UNFPA's general resources, multi-bilateral funding emerged as an important part of UNFPA's programming at the country level. The evolution of multi-bilateral funding is best illustrated by the fact that in 1985 only one of UNFPA's proposed country programmes included a proposal for multi-bilateral assistance ($1.2 million of a proposed total country programme requirement that year of $136.0 million). By 1987, 30 out of 32 country programmes included a provision for multi-bilateral support. By 1993, all the country programmes submitted for approval included a requirement for multi-bilateral assistance, a trend that has continued since then. As noted in section II of DP/FPA/1998/CRP.2, the multi-bilateral component of currently approved country programmes is $202.0 million. Of this amount, $134.0 million, or 67 per cent, is envisaged for category A priority countries.

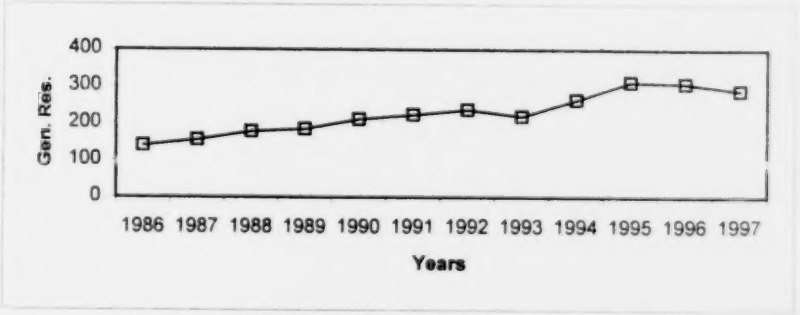
8. Table 1, including graphs 1 and 2, provides a summary of UNFPA's general and multi-bilateral resources for the period 1986 to 1997. During this time period, total income amounted to about $2.9 billion, with approximately $148 million, or 5 per cent of the total, for multi-bilateral support. This shows that UNFPA has been able to maintain its policy of keeping multi-bilateral

Table 1 - UNFPA Resources, 1986 - 1997
(In millions of United States dollars)

Resources	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	Total
General Resources	140	156	178	185	212	224	238	220	265	313	309	290	2,730
Multi-bi	4	4	11	6	10	8	12	16	14	16	20	29	150
Total Resources	144	160	189	191	222	232	250	236	279	329	329	319	2,880
Multibi as % of Total Resources	3	3	6	3	5	3	5	7	5	5	6	9	5

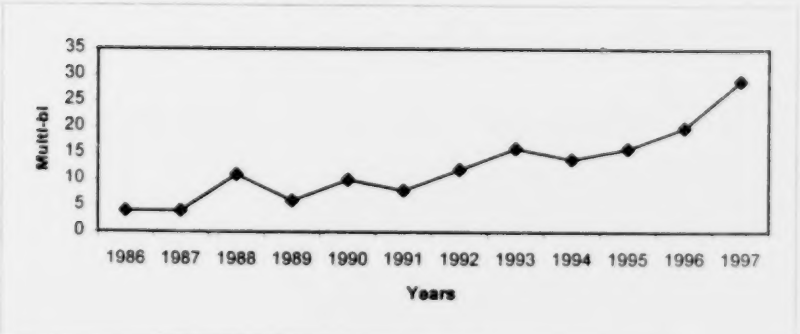
Graph 1 -
(in millions $)

General Resources



Graph 2 -
(in millions $)

Multi-bi



funding as a small supplement to general programmable resources. Table 1 also shows annual multi-bilateral funding as a percentage of general resources. In 1997, multi-bilateral contributions increased substantially over 1996. This factor, plus the small decrease in 1997 general resources, resulted in an increase in multi-bilateral income to 9 per cent of total resources. For 1998, multi-bilateral income is projected at around $25 million, or 8 per cent of total resources.

9. Table 2 lists multi-bilateral donors and their contributions for the last three years (1995 to 1997). The largest contributors during this period have been: Norway, the Netherlands, Australia, the United Kingdom, Belgium, and Sweden. During the last few years, Germany, Italy, Luxembourg and Spain have increased their multi-bilateral support. France has also recently informed UNFPA of its interest to make a substantial contribution to multi-bilateral projects in Africa in 1998-1999. In terms of intergovernmental organizations, the European Commission (EC) made a four-year commitment, in 1997, of over $30 million for reproductive health projects in Asia. The European Community also is supporting multi-bilateral projects in Africa, the Arab States and Central America. Additionally, the Arab Gulf Fund for Development (AGFUND) continues to make regular multi-bilateral contributions.

10. Table 3 and graph 3 provide information on the regional distribution of multi-bilateral funding in 1997. The largest allocation of multi-bilateral funds was for Africa with 58 per cent of the total, or approximately $15.9 million. This trend is expected to continue for the foreseeable future.

III. MANAGING MULTI-BILATERAL FUNDING AND LESSONS LEARNED

11. Since multi-bilateral resources were a small component of UNFPA's total resources from 1976 into the early 1980s, multi-bilateral operations were initially handled directly by existing units of UNFPA. However, as multi-bilateral contributions increased and the workloads to manage and administer them became more complex and labour intensive, the need to provide a more systematic, cross-divisional approach became apparent. In late 1987, the Executive Director established the Resource Development Unit, later renamed the Resource Development Branch, which, among other resource mobilization functions, was given the responsibility to coordinate the multi-bilateral process at headquarters and in the field. This organizational change was later followed in 1990 by the development of a comprehensive set of guidelines for undertaking multi-bilateral funding. These guidelines put together existing instructions and practices related to UNFPA's multi-bilateral financing in a more functional and coherent manner.

Table 2: Multi-bilateral Contributions from Major Donors 1995-1997

(Millions in US Dollars)

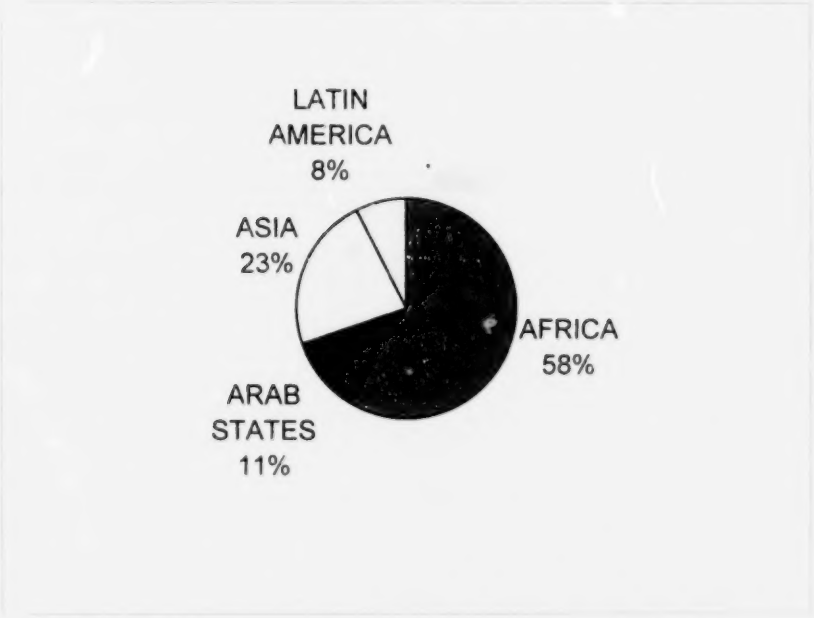
Trust Funds	1995	1996	1997	Total
AGFUND	125,000	217,000	529,000	871,000
Australia	2,562,000	2,591,000	227,000	5,380,000
Austria				-
Belgium	1,155,000	585,000	530,000	2,270,000
Canada	161,000	375,000	731,000	1,267,000
Canadian Public Health Association			902,000	902,000
Denmark			458,000	458,000
EEC	-	197,000	5,360,000	5,557,000
Finland				-
France				-
Germany		507,000		507,000
Italy			1,772,000	1,772,000
Luxembourg	926,000		255,000	1,181,000
Netherlands	1,076,000	3,458,000	5,876,000	10,410,000
Norway	4,864,000	6,155,000	6,898,000	17,917,000
Spain	319,000	819,000	371,000	1,509,000
Sweden	485,000		1,153,000	1,638,000
Switzerland	17,000	47,000		64,000
United Kingdom	1,051,000	1,890,000	2,379,000	5,320,000
Others	3,260,000	3,359,000	1,959,000	8,578,000
TOTAL	16,001,000	20,200,000	29,400,000	65,601,000

Table 3: Regional Distribution of Multi-bilateral Funds in 1997

(Millions in US Dollars)

AFRICA	15,973,000
ARAB STATES	3,133,000
ASIA	6,265,000
LATIN AMERICA	2,063,000
TOTAL	27,434,000

Graph 3: Regional Distribution



12. As noted above, multi-bilateral funding (co-financing) is undertaken within UNFPA as a cross- divisional process wherein the workload is shared by several units. Each unit has a specific function to perform in order to ensure that the multi-bilateral arrangement progresses effectively from one stage to the next. In addition to the Resource Development Branch, multi-bilateral focal points have been assigned in each of the concerned units to provide the overall managerial, financial, administrative and procurement services needed to support the multi-bilateral co-financing modality. Two of the most important and time-consuming functions in this process are the preparation of multi-bilateral agreements and the management of financial and substantive inputs in conformity with the provisions of these agreements. UNFPA country offices, especially the UNFPA Representatives, together with the Resource Development Branch, the Finance Branch, the focal points in the Geographical Divisions and other headquarters units, are required to devote considerable time communicating on financial and substantive inputs involving the preparation of multi-bilateral projects and multi-bilateral agreements; the timely and adequate payment of multi-bilateral contributions; the preparation of project budgets and corresponding allocations; the assurance of transparency and accountability; and the preparation of complete and accurate financial and substantive reports. Another important support service is provided by UNFPA's Procurement Branch, which combines technical expertise and operational knowledge in procuring quality equipment and supplies for the best prices and optimal maintenance and service arrangements, while factoring in the advantages and disadvantages of local versus international procurement. The country offices and corresponding Geographical Divisions, in particular, need to manage the activities, monitor their implementation and frequently report on their progress.

13. The recent decentralization of official development assistance (ODA) by a number of major multi-bilateral donors to their embassies in programme countries has introduced a new dynamic in the way multi-bilateral funding is handled within UNFPA. This recent shift of emphasis by donors to the field has required UNFPA's Representatives and their staff to become more actively involved in contacting potential donors and providing the necessary administrative support services for the day-to-day management of the portfolio of multi-bilateral-assisted projects. UNFPA headquarters is having to make adjustments as well. In light of these recent developments, work on revising the 1990 guidelines was set in motion in early 1997 as part of a UNFPA effort to formulate new general programme guidelines. It is expected that the new guidelines on multi-bilateral funding will be issued by the end of 1998.

14. In terms of lessons learned since 1976, the following points are worth noting:

(a) Multi-bilateral funding is an important co-financing vehicle because it allows donors to devote bilateral funding to specific projects in country programmes;

(b) Multi-bilateral resources have filled funding gaps for a significant number of aid-worthy projects that otherwise could not have been implemented;

(c) The multi-bilateral process has contributed to increasing communications between UNFPA and the donor community not only on multi-bilateral matters but on other issues as well. For example, the annual consultations that the Fund now has with many of its major donors, intended originally to discuss multi-bilateral issues, has evolved into a much broader bilateral donor/UNFPA forum. This has in many ways resulted in a better dialogue and understanding between UNFPA and its donors;

(d) The multi-bilateral process has provided a window of opportunity for the Fund to work closely with bilateral donors not only for increasing resources to UNFPA but also for furthering the coordination of technical assistance. This has helped strengthen UNFPA's coordination role in the field;

(e) Internal UNFPA collaboration on multi-bilateral funding has produced good examples of in-house team work that has carried over to other programming exercises;

(f) The multi-bilateral process is inherently very labour-intensive and communications-driven. Considerable amounts of staff time both in UNFPA country offices and at headquarters are devoted to providing the managerial and substantive support needed to effectively monitor multi-bilateral projects;

(g) The workload required to manage and administer multi-bilateral assistance has increased significantly since 1992. Currently, UNFPA, through the Resource Development Branch, is monitoring 150 multi-bilateral project agreements and 18 multi-bilateral trust funds. In 1997, over 35 new projects were added to the multi-bilateral portfolio;

(h) The overall process, from submission of proposals to donor approval, can take from 1 to 1½ years resulting in delays in project implementation. Additionally, this lengthy review and approval process requires UNFPA units to follow-up constantly on pending actions.

15. During the third regular session of the Executive Board in 1997, several delegations expressed concern over the increase in co-financing activities and the drain these activities may have on the biennial support budget. Some therefore addressed the issue of cost recovery. On following up on this subject, UNFPA has identified two areas of concern: (a) the possibility of charging managerial and support services costs on multi-bilateral co-financing projects; and (b) the adequacy

of the current level and system of reimbursement for administrative and operational support (AOS) costs. The two support costs incurred for multi-bilateral projects are described briefly below:

(a) Managerial and support services costs correspond to the full range of management and administrative support provided directly to develop, oversee and monitor projects financed by multi-bilateral contributions in accordance with the provisions of the multi-bilateral funding agreement. UNFPA must provide essential managerial and administrative services and support within its existing structure and with existing staff. Currently, UNFPA is not reimbursed for such management and support services;

(b) AOS costs cover the substantive, technical and managerial staff skills and expertise provided by UNFPA in the execution of multi-bilateral-funded projects. The Executive Board previously authorized UNFPA to be reimbursed at a rate of 5 per cent to cover the incremental workload of executing both multi-bilateral and regular projects. As noted below, UNFPA proposes that the percentage for AOS be increased to 7.5 per cent, which reflects more accurately the cost of such services and brings UNFPA in line with other executing agencies, which also charge 7.5 per cent for services.

16. In view of the above, it is timely to review current operational methods of multi-bilateral funding to determine the estimated costs UNFPA has to bear for providing managerial and support services. While cost recovery for undertaking multi-bilateral funding is admittedly a complex process, UNFPA has benefited from the reports on this subject recently prepared by UNDP and UNICEF. Many of the definitions and general conclusions in these reports are applicable to UNFPA and are in accordance with the recent budget harmonization exercise; thus, it seems practical not to repeat them in this report. Rather, this report builds on some of the cost-recovery methodologies used by UNDP and UNICEF and concentrates on providing the Board, in as clear a manner as possible, the estimates of what it costs UNFPA to provide managerial and support services for monitoring multi-bilateral projects.

IV. MULTI-BILATERAL MANAGERIAL AND SUPPORT SERVICES UNDERTAKEN BY UNFPA UNITS

17. For purposes of this analysis, managerial and support services are seen as encompassing four key processes. These are: (a) formulating projects and discussing prospective pipeline projects with donors and recipients; (b) negotiating and formulating multi-bilateral agreements; (c) providing operational support; and (d) monitoring the financial and substantive aspects of the projects and reporting on them in accordance with the provisions of specific agreements. The estimates of unit workload levels are based on a sampling of the number of multi-bilateral transactions in each category per principal unit in the field and at headquarters. This information is used to determine

the quality and type of transaction, which, in turn, indicates the staff category and level, e.g. P-4 or G-4, and preliminary conclusions concerning the amount of staff time required for such transactions. The results from this rather simple and straightforward analysis are summarized below, and the direct financial implications for providing managerial and support services are presented in table 4 and charts 4 and 5.

18. The UNFPA Country Representatives, along with the country offices and the Resource Development Branch at headquarters, play a very large role throughout the multi-bilateral cycle, but especially in the early stages. Multi-bilateral project formulation and donor contact is carried out primarily by the UNFPA country office in consultation with the programme country. The country office secures the necessary substantive expertise in the areas to be covered by the multi-bilateral project, i.e., technical skills and organizational and managerial capabilities. During this process, significant managerial support is provided, especially concerning inputs and guidance on UNFPA policies and procedures and on financial and administrative issues. UNFPA Representatives also play a pivotal role in phase II of the process -- negotiating the multi-bilateral agreement. With the support of headquarters units, primarily the Resource Development Branch, the agreement is prepared and approved by the concerned parties. To facilitate this process, standard model agreements now incorporated in the Fund's multi-bilateral guidelines are used as much as possible. In some cases, donors may require that their own formats be used, thus prolonging the agreement-preparation stage. The Geographical Division focal points and Finance Branch are also very actively involved so as to ensure that the provisions of the agreement are in keeping with UNFPA programming priorities and financial rules and regulations. In phases III and IV of the cycle, UNFPA must provide the administrative and support services necessary to backstop multi-bilateral projects. Such services include: financial management, communication and reporting, record-keeping and maintenance, procurement, logistics and data processing. The bulk of these activities are carried out by headquarters units in coordination with the country office.

19. To determine the estimated managerial and support services costs in UNFPA country offices for developing and monitoring projects funded from multi-bilateral contributions, a review was first conducted to identify those field offices managing multi-bilateral portfolios of over $1 million in annual expenditures. A prototype office was then selected and analysed using the process framework described in paragraph 17 above. The provisional results show that country office staff routinely spend approximately 10 per cent to 15 per cent of their time on such managerial and support services. Considering the current number of country offices in this category (17), as well as those country offices (26) that have much smaller multi-bilateral portfolios, UNFPA estimates that approximately 60 per cent of multi-bilateral managerial and support services costs are incurred in the field, as illustrated in table 4 and charts A and B.

Table 4 - Breakdown of Managerial and Support Services Costs
(in thousands of United States dollars)

Field Offices		743
Headquarters		508
	Resource Development Branch	221
	Geographical Divisions	166
	Financial Branch	86
	Procurement Branch	35
Grand Total		1,250

Chart 4 -
Breakdown Between Field
and Headquarters

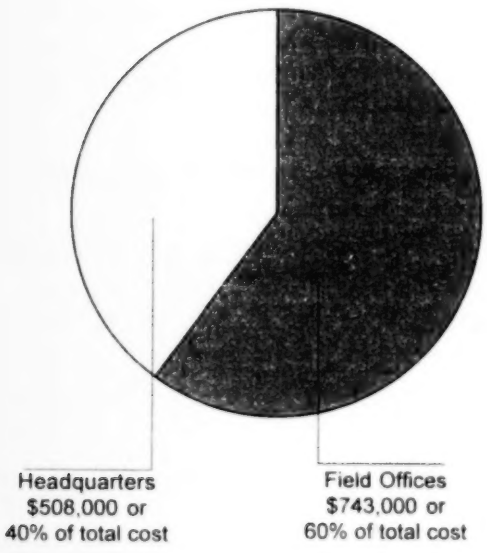
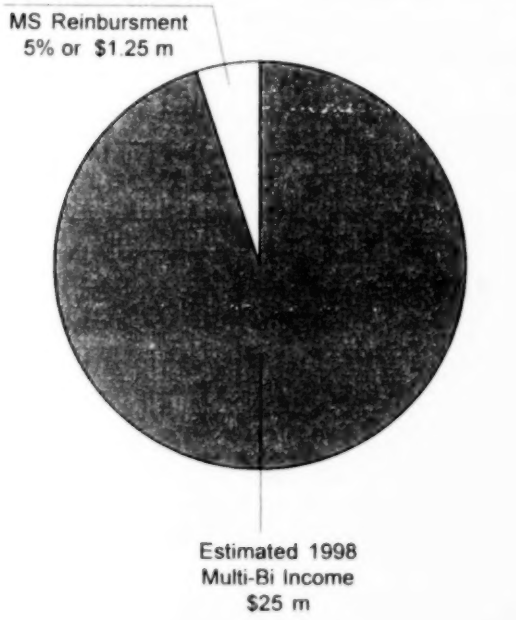


Chart 5 -
Estimated 1998 Multi-Bi Income
and Percentage for MS Cost Recovery



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20. At headquarters, the primary managerial and support services functions are carried out by the Resource Development Branch (RDB) and the Geographical Divisions, with significant support from the Finance Branch on financial analysis and reporting matters. As mentioned above, the Resource Development Branch has been set up, among other things, to coordinate multi-bilateral funding, e.g., to prepare and monitor multi-bilateral funding procedures and to assist country offices and headquarters units to manage support services for multi-bilateral projects. Over half of RDB's staff time is directly devoted to this task. In the Geographical Divisions, multi-bilateral focal points liaise constantly with programme officers, RDB and field offices on the development and monitoring of multi-bilateral projects. The Finance Branch carries out the main financial functions, and the Procurement Branch performs a small number of administrative duties in phase IV of the multi-bilateral cycle that are not included in its regular activities or covered by the 5 per cent AOS project implementation recovery charge.

V. COST RECOVERY FOR MULTI-BILATERAL TRUST-FUND ARRANGEMENTS

A. Reimbursement of managerial and support services costs

21. As noted above, managerial and support services costs are distinct from AOS costs. They apply only to co-financing activities and are reimbursable only to UNFPA. The purpose of charging for managerial and support services is to recover the costs of administering projects that fall outside of UNFPA's regular programmable activities, which are supported by the biennial support budget.

22. UNFPA provides full managerial and substantive support to activities financed from multi-bilateral resources. Multi-bilateral arrangements entail additional managerial and administrative support from UNFPA, regardless of the executing agency, for such services as developing and maintaining agreements, recording funds, reconciling accounts, providing technical support, monitoring the substantive aspects of the projects, providing oversight and evaluation, as well as financial reporting and overall project management. The performance of these tasks represents a significant drain on UNFPA resources (biennial support budget) for which, currently, no compensation is received. UNFPA is therefore supporting the management and administration of multi-bilateral projects with general financial resources meant for the support of regular UNFPA activities.

23. UNFPA reviewed the current practices of UNDP (as set forth in document DP/1998/3) which has a general mandate from the Executive Board for cost recovery of incremental costs associated with the administration of activities funded from supplementary resources. UNFPA also recently examined UNICEF's Cost Recovery Policy (document E/ICEF/1998/AB/2.6). In the spirit of harmonizing its procedures with its partner organizations, UNFPA proposes to establish a

managerial and support services cost-recovery rate of 5 per cent to be levied on all multi-bilateral trust-fund projects. Income earned through managerial and support services cost recovery will be distributed back to those units that bear the heaviest administrative burden for the specific project or activity in question. The costs recovered should be apportioned as indicated in chart A: 60 per cent to the respective country offices and 40 per cent to the pertinent headquarters unit.

B. Reimbursement of administrative and operational services (AOS) costs

Multi-bilateral (co-financing) arrangements

24. Multi-bilateral trust-fund agreements currently provide funding for the reimbursement of AOS costs at the same levels charged under regular programmable resources. UNFPA, acting as executing agency for trust-fund projects, is eligible for reimbursement of AOS costs associated with all project expenditures at the current level of 5 per cent. This amount is included in trust-fund expenditure (i.e., funded by the donor) and credited to UNFPA's biennial support budget.

25. Reimbursable procurement services provided by UNFPA, currently reported under trust funds, command a similar reimbursement of 5 per cent (procurement fee), the net amount of which, until 1998, had been credited to UNFPA's miscellaneous income. Beginning in 1998, the net reimbursable procurement income/expenditure is to be credited/debited to the biennial support budget in accordance with the harmonization of UNDP/UNICEF/UNFPA support budgets. Reimbursable procurement charges will remain at the 5 per cent level.

26. The Executive Director proposes to increase the rate of reimbursement for UNFPA as an executing agency to 7.5 per cent for multi-bilateral trust-fund projects, commensurate with other United Nations agencies and consistent with the AOS costs charged under regular programmable resources above.

Summary of proposals on cost recovery

27. The Executive Director's proposals on cost recovery for managerial and support services and for AOS are as follows:

(a) Managerial and support services should be levied at a rate of 5 per cent on all multi-bilateral activities and apportioned between the concerned country offices and headquarters units at 60 per cent and 40 per cent, respectively;

(b) Administrative and operational services costs for UNFPA execution of multi-bilateral trust fund projects should be increased from the current level of 5 per cent to 7.5 per cent.

Recommendation

28. The Executive Director recommends that the Executive Board endorse the continued use of multi-bilateral funding as a viable modality to supplement the general resources of UNFPA and approve the recommendations for cost recovery as outlined above.

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